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Comparison of Financial Market Regulation in China and the USA

Srovnání regulace na finančních trzích v Číně a USA

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The declaration

"Herewith I declare that I elaborated the entire thesis, including all annexes, independently."

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Content

Comparison of Financial Market Regulation in China and the USA

1 Introduction

The monopoly, externality, and the incompleteness of information in the financial sector can all lead to the distortion of financial products and the information of financial services. This situation has become a financial market failure. It will lead to a decline in the efficiency of the allocation of financial market resources. Therefore, certain measures must be adopted to avoid, eliminate, or partially eliminate the series of adverse consequences caused by the financial market itself, in order to achieve an effective allocation of social resources.

Financial supervision is a common issue faced by all countries in the world. After China's accession to the WTO, the financial industry will further integrate into the international financial system and will participate in the process of economic globalization in a wider scope and extent. This has brought many new ideas to the financial supervision of our country. The contents, methods and means, and model systems of China's financial supervision will all face enormous challenges. The financial supervision system in China needs to be improved.

For a long time, the United States' financial supervision has been regarded as the most efficient supervision system in the world. The outbreak of the subprime mortgage crisis in 2007 caused a serious impact on the USA financial system. A large number of financial institutions went bankrupt and seriously affected the international economy, which exposed the deficiencies of the USA financial regulatory system. The USA financial market supervision also needs to be reformed.

The aim of this thesis is to analyze the purposes and contents of the supervision of financial markets in China and the United States in detail. In addition, I will discuss the achievements of the two countries' financial supervision and the issues they are currently facing.

2 General Introduction of Financial Market Regulation

Financial market supervision is a very broad concept. It generally includes two levels of meaning: First, it refers to the state or government's supervision of various participating institutions and trading activities in the financial market. Second, it refers to the self-regulatory management conducted by various institutions and industry organizations in the financial market, such as stock exchanges, securities industry associations and so on. The former is external management while the latter is called internal self-discipline.

2.1 Financial Market Supervision System

Since the 1980s, the wave of financial liberalization and innovation that began in the west has washed away from the specialized financial system that was implemented in many countries after World War II. The traditional business model has been broken, and the business boundaries between banks and non-bank financial institutions have gradually become fuzzification. The business of fuzzy financial institutions will be diversified and integrated.

However, different countries have different levels of credit and operating systems also have different modes of operation. Different degrees of financial supervision and different financial risks determine the speed at which a country's financial industry develops from separate to mixed industries.

Financial management and supervision models in some major countries and regions， for example, the USA was the separate business model before, but after the 1999, the United States abolished the “Glass-Steagall Act” and promulgated the "*Financial Services Modernization Act*," marking that the United States has entered a mixed-business era (*TATOM, John A*, 2008). The United Kingdom also entered the *mixed business model* in 1986. Many countries such as Japan, Germany, Switzerland, and China are currently mixed business models. However, France is still the *separate business model*. Most European countries have unified supervision over their supervision methods. The USA and China are both the *separate supervision model*.

Most of the *regulatory agencies* of commercial banks are central banks. At the same time, the institutions responsible for supervising banks in most countries do not regulate other financial institutions. Only the Netherlands, Singapore, and Uruguay have the central bank responsible for the three sectors of banking, securities, and insurance companies. Considering the organizational structure of the regulatory system, 53 of the 73 countries have implemented separate supervision of banks, securities and insurance by specific institutions, and insurance companies are supervised by designated institutions. However, since 1996, there have been fewer and fewer countries with designated professional regulatory agencies.[1]

The financial supervision system has different characteristics in different countries. There are there main types.

The first is that, the country's banking supervisory authority is centralized in the *central government*, and local authorities do not have independent powers, and at the central level, two or more agencies are responsible for the supervision model. For example, Japan, Germany and France are all this model. This regulatory model reflects the characteristics of power concentration in these countries and the need for checks and balances of power.

The second is that both the central and local governments have the right to *supervise the banks*, and at the same time, several organizations at each level jointly perform the functions of supervision. Federal states often adopt this kind of supervision mode because of the great power of local government, such as the United States and Canada.

The third is that the supervision power is centralized by a financial regulator, this institution is often *the central bank* of all countries. This model of financial supervision is common in both developed and developing countries, but the formation

[1] Source:https://wenku.baidu.com/view/ff1b7ed476eeaeaad1f330e8.html

mechanisms of the two are different.

The implementation of this model in *developed countries* is the result of integration on the basis of highly developed finance. It is compatible with its well-developed market system, a highly developed economic level, and its own independent central bank. Developing countries adopt this model because of the imperfect development of their domestic market system. The structure of the financial system is relatively simple. It objectively requires the government to involve and supervise through the central bank in order to adapt to the domestic market. Therefore, although bank supervision in developing countries is also implemented by the central bank, it reflects the will of the government and does not have the independent supervision and decision-making power of the central bank.

2.2 Subjects of the Financial Market Supervision

The first category of the main body of financial supervision is *public institutions*. Their rights are granted by the government. It is mainly responsible for formulating various rules and regulations for financial supervision and the implementation of these rules and regulations. If someone violates these rules and regulations, he will be subject to the punishment of laws and regulations.

The second category of the main body of financial supervision is a variety of *non-governmental institutions*, whose rights derive from the universal recognition of institutional decisions by their members. The occurrence of violations of law and regulations will not receive legal sanctions but will be punished by the relevant rules of the institution.

The financial system includes three aspects:

- Legal system of financial supervision;
- Organization of financial supervision;
- Execution of financial supervision.

The *legal system* lays down the legal status of parties concerned in the financial supervision process from the perspective of the legal system, and stipulates the rights and obligations of each party in the process of financial supervision.

From the perspective of the party's own behavior, the *organization system* shows the interactive relationship of various parties in the financial supervision process, indicating the party's instinct or the possible response to external stimulate and the impact on other parties.

The *execution system* describes the means, steps, and practices of financial regulators in the specific implementation of supervision.

In the actual financial supervision process, these three aspects of the financial supervision system exist and play a role at the same time.

2.3 The Objects of the Financial Market Supervision

The object of the financial market refers to the object of trading in the financial market and the subject matter of the transaction, which is usually referred to as a financial instrument.

It refers to the regulation of the issuance and circulation of trading instruments such as currency positions, notes, stocks, bonds, foreign exchange and gold. Such as the implementation of the securities issuance audit system, stock exchanges and securities regulators on the rules concerning the listing of securities, the provisions of the suspension and suspension of the listing of securities; the monitoring of the price fluctuations of financial instruments, and the adoption of relevant systems such as ups and downs to avoid too frequent financial markets great fluctuations and so on. Due to the different types and varieties of financial instruments in different countries and regions, the regulatory content is also different.

2.3.1 Development Path

Judging from the historical changes in the object of financial regulation, the objects of financial regulation in the early 20th century were mainly *commercial banks* (*HOWARD Davies and DAVID Green*, 2009). After the Second World War, financial institutions became increasingly complex, with non-categorical, quantitative, and asset scales greatly expanding. With the continuous development of financial innovation and financial liberalization, financial institutions have grown stronger, which makes the financial regulatory authorities have to increase the supervision power.

The continuous expansion of the financial derivatives market makes the financial regulatory objects more and more abundant. In recent years, with the rapid development of financial globalization, *transnational banks and other multinational financial institutions* have increasingly become regulatory objects.

2.3.2 The Objects of Financial Supervision

The object of financial supervision is the field of *human financial behavior and financial activities*, but not all, only the part of market failure is the content of supervision. Financial supervision is not the only means to solve the problem of financial market failure. It can only solve certain problems in financial market failure.

2.4 The Aim of the Financial Market Supervision

The aim of financial supervision is the core of financial supervision theory and practice.

Financial market supervision must overcome the failure of financial markets, maintain the fairness, efficiency, transparency and stability of financial markets and promote the development of financial markets. This will in turn promote the stability and development of the entire society.

2.4.1 Development Path

Before the 1930s, the goal of financial regulation was to *provide a stable and* *flexible money supply* and prevent the negative impact of bank crowding.

The experiences and lessons of the Great Depression in the 1930s caused the financial regulatory objectives of all countries to begin to commit themselves to *maintain a safe and stable economic system* in order to prevent the financial system from collapsing on the macroeconomic crisis.

In the late 1970s, excessive strict financial supervision resulted in the decline of the efficiency of financial institutions and the difficulty in their development. As a result, the goal of financial supervision began to return to efficiency again. In recent years, it has developed into an effective risk control, pay attention to the safety, efficiency, and balance. This makes the target of financial supervision more and more abundant today (*HOWARD Davies and DAVID Green*, 2009).

2.4.2 The Aim of the Supervision

The goals of financial regulation can be divided into general goals and specific goals.

General Objectives

First is to prevent and defuse financial risks and maintain the stability and security of the financial system.

Second is the protection of fair competition and improvement of financial efficiency to ensure the sound operation of financial industry and the effective implementation of monetary policy.

Specific Objectives

The specific objectives are mainly focused on the security of operations, fairness of competition, and consistency of policies.

The *security of operations* includes two aspects:

- Protection of the legal rights of depositors and other creditors,

- Standardization of the behavior of financial institutions, and improvement of the quality of credit assets.

The *fairness of competition* refers to the creation of an equitable, cooperative and orderly competitive financial environment through the supervision of the central bank and guarantees moderate competition among financial institutions.

The *consistency of the policy* refers to the supervision and consistency of the financial institution's business operations with the central bank's monetary policy objectives. Through the financial supervision, promoting and ensuring the healthy development of the entire financial industry and the socialist market economy (*DAI Donglu*, 2011).

2.5 The Means of the Financial Market Supervision

As far as management methods and means are concerned, they can basically be divided into two forms. The first way is to directly intervene and regulate these activities and behaviors. The second is to first intervene in various factors that affect human financial behavior and activity areas to change the role of these factors in human financial behavior and financial activities, and then indirectly affect human financial behavior and financial activity.

2.5.1 The Means of the Financial Market Supervision

Financial market supervision is divided into announcement supervision, standards supervision and entity supervision.

The Announcement Supervision

The announcement of supervision refers to the fact that *the government* does not directly supervise the operation of the financial industry, and only stipulates that each financial company must regularly report the business results to the government's competent authority and *make an announcement* in accordance with the format and content stipulated by the government. As for the organizational form of the financial industry and the financial enterprise, the use of regulations and financial funds is self-managed by financial companies, and the government does not interfere with them.

Under the supervision of the announcement, the financial enterprise's operation is *judged by itself and the general public*. This kind of supervision method that combines the government and the public is conducive to the free development of financial institutions in a more relaxed market environment. However, due to the asymmetric information, it is difficult for financial companies and the public to judge the merits of financial companies' operations, and there is nothing to do with the improper operation of financial companies. Therefore, the announcement of supervision is the most liberal supervision in financial supervision.[2]

The Standards Supervision

Standards supervision means that the *state formulates certain guidelines for the operation of the financial industry and requires it to follow a regulatory approach*. Under this supervision, the government has clearly defined the financial industry's major issues concerning the operation of financial companies, such as the minimum capital of financial companies, the review of balance sheets, the use of capital funds, and penalties for violating the law. There will no interference in business operations, financial management, and personnel.

This type of supervision emphasizes the *formal legality* of financial companies and is *more operable than the public notice*. However, due to the fact that they have not touched on the entities that the financial companies operate, there are only some basic criteria and it is difficult to play a strict and effective regulatory role.

The Entity Supervision

Entity supervision means that *the state has established sound financial supervision and management rules*, and the financial supervision agency has

[2]Source:http://www.chinalawedu.com/new/201306/caoxinyu2013062811432754643211.shtml

effectively supervised and managed the financial market, especially financial enterprises, *in all aspects and in the entire process in accordance with the powers granted by law*. The entity supervision is the country's strong management of financial enterprises through administrative means on the basis of legislation, and is more strict, concrete and effective than the announcement supervision and standards supervision.

The financial supervision department is authorized by the national law. It exists as a system to regulate market failure. The financial supervision department is authorized by the national law. It exists as a system to regulate market failures, and maintains the credibility of financial institutions and Security, at the same time, the financial supervision system can also create a very fair market competition environment and supervise and restrict banks in accordance with law.

The most common financial regulator is the *government*. Sometimes the government will take action directly, and using the political means to regulate the market. Or they will order the private financial sector to take action. Or use economic policies or economic levers to guide economic individuals to act in accordance with the government's wishes through the role of financial market mechanisms.[3]

However, no matter what kind of financial measures are adopted, it must follow the principles of legality, fairness, openness, and fairness.

2.5.2 The Theoretical Basis of Financial Market Supervision

The principle of financial supervision is the value and minimum code of conduct that should always be followed when pursuing the financial regulatory activities of financial institutions' financial regulatory agencies and internal regulatory agencies.

[3]Source:http://www.chinalawedu.com/new/201306/caoxinyu2013062811432754643211.shtml

Basel

Global financial innovation and financial liberalization have brought about a serious negative impact - the global infectivity of financial risks, coupled with the differences in national regulatory methods, the effective supervision of transnational financial institutions is not easy, this requires the Cooperation between countries.

In February 1975, under the auspices of and initiated by the Bank for International Settlements, the Group of 10, Switzerland, and Luxembourg jointly established the "BIS Standing Committee on Bank Management and Supervision Actions," which is composed of representatives from the national banking supervisory authorities. The committee later changed its name to the Basel Committee on Banking Supervision. Since its inception, the Basel Committee has developed a series of important banking supervision regulations (*LI Siqiwen*, 2014).

In 1988, the Basel agreement was called “the international agreement on the unified capital measurement and capital standard”, which aims to strengthen the regulation of bank capital and risk assets and eliminate unfair competition among banks through the regulation of the capital adequacy ratio of banks to reduce the number of capital differences stipulated by each country.

In 1988, the Basel agreement had three main features: first, it established a global unified bank risk management standard, and two emphasized the significance of the standard of capital adequacy ratio. By emphasizing the capital adequacy ratio, the global banking operation is driven from the focus of scale to capital and the quality of assets. Three is influenced by the debt crisis of developing countries in 70s, emphasizing the important role of national risk to bank credit risk, and clearly stipulates that the proportion of the weight of credit risk in different countries is different.

Due to the influence of the debt crisis in 1980s, the credit risk has brought considerable loss to the international banking industry, and the bank began to pay attention to the prevention and management of the credit risk. The Basel Committee has established a set of international capital adequacy criteria to measure the risk of both in and out of the table, which greatly affects the process of international banking supervision and risk management.

It is under this principle that the Basel Committee has established a new venture capital agreement (Basel II) which is more risk sensitive. The new agreement extends the risk to credit risk, market risk, operation risk and interest rate risk, and puts forward "three pillars" (minimum capital regulations, supervision and inspection and market discipline) requiring capital supervision to reflect the risk situation of bank management more accurately, and improve the security and stability of the financial system further.[4]

On September 12, 2010, Basel III was promulgated. Under this agreement, commercial banks must raise their capital ratios to enhance their ability to resist financial risks. The management meeting of the Basel Banking Regulatory Commission has passed a reform plan to strengthen the capital requirements of the banking system, namely, the Basel Agreement III, with the core content of raising the minimum capital regulatory standards for global banking.[5]

Emphasis on stable financial supervision theory

The emphasis on stable financial supervision theory is to maintain the safety of the financial system as the goal, and tends to the government directly regulated financial supervision theory. These theories have answered affirmatively whether the government needs to intervene or supervise. They use financial market failure as the basis to explain the necessity of government supervision from the different manifestations of failure and believe that financial supervision is to make up for the insufficiency of the financial market itself, and improve the efficiency of resource allocation.

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4 Source:https://en.wikipedia.org/wiki/Basel_II

5 Source:https://en.wikipedia.org/wiki/Basel_III

Stability and Efficiency Take into Account Financial Supervision Theory

Along with a series of regional financial crises that began in the late 1980s, people began to reflect further and deepen their research on financial supervision theories. To a certain extent, the frequent emergence of the financial crisis has promoted the development of financial supervision theory in the direction of stability and efficiency. Especially in the last decade of the 20th century, Western developed countries shifted the focus of supervision to the supervision of the bank's capital effectiveness and the establishment of a regulatory market constraint mechanism. The related theories that appeared during this period applied game theory, information economics, commissioned agency and other methods, making the theory closer to reality.

Financial Supervision Theory Based on Market Constraints

The financial crisis of the 1990s has led people to find that the government's financial supervision is ineffective in most cases because the government, as a special subject with independent interests, cannot fully put its maximizing social welfare onto it. These theoretical and studies are mainly explained in terms of two aspects. On the one hand, they mainly focus on the relationship between market constraints and the efficiency of financial supervision. On the other hand, they use the market constraints to improve financial supervision.[6]

2.6 Financial Supervision under the New Situation

With the continuous development of the times and the financial market, the supervision of financial markets must also follow the trend.

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[6] Source:https://baike.sogou.com/v59337980.htm

2.6.1 The New Financial Supervision

Financial innovation refers to the recombination of various factors in the financial industry. It is the financial management and financial supervision authorities' consideration of micro-interest or macro-benefit, and the reform of the financial industry in terms of institutional settings, business types, financial instruments, and institutional arrangements.

Financial innovation is the creative transformation of financial institutions in the pursuit of profitability or evasion of control. Financial supervision is the laws and regulations and regulatory measures promulgated by the management to safeguard the safety and stability of the financial system. Its purpose is to prevent excessive competition.

In theory, financial supervision is an obstacle to financial innovation. However, from the perspective of the historical practice of financial innovation, financial supervision is also a trigger factor of financial innovation. It is *interconnected* between this two.

Financial innovation has caused instability in the financial system. Therefore, governments of all countries must further improve financial supervision in order to maintain the stability of the financial order. However, this does not mean restoring the original supervision, but rather strengthening financial supervision under the background of relaxing financial supervision. Therefore, financial innovation leads to new financial supervision, which is an improvement and sublimation of financial supervision. Financial innovation will counteract financial supervision and promote financial supervision.

While financial innovation shifts the original financial risks, it also creates *new financial risks and harms the stability of the financial system*. Some financial innovations are carried out in order to evade financial supervision. The success of financial innovation also means the reduction of the effectiveness of financial supervision. In addition, financial innovation technology is complex, its combination is ever-changing, financial supervision is more difficult, and the original regulatory system will be greatly affected.

Governance is a dialectical unity with those who are ruled. They are both a pair of contradictions, but they also have a consistent fundamental interest. That is, both the ruler and the ruler hope that the financial system can achieve fair competition, safety and high efficiency. This consistency in fundamental interests determines that financial regulation is willing to accept new regulations.

2.6.2 Example of Online Banking Supervision

For example, the recently-emerged online banking has brought great challenges to financial supervision.

The recent technology that had major impact on bank services is Internet banking. Customers can access the banks anytime by means of Internet Banking. *Online banking services* are the product of the information age. The electronic money created by online banking has changed the traditional currency circulation methods, greatly reducing the social transaction costs and expanding the scope of the transaction. (*MARTA Vidal and JAVIER Vidal-Garcia*, 2017)

As a product of the information age, online banking mainly has the following *three characteristics*: one is the computer software system for operation and management; the second is the need for good social base supports, mainly the need for the support of well-developed communications equipment; the third is no branch Institutions, few personnel, low communication costs, materialized operations, and so on.

These characteristics of online banking also make online banking virtual financial services market contains a great deal of *risk*, making banking business lose time and geographical restrictions, trading objects become more difficult to determine, the process is more opaque, no doubt increased the difficulty of supervision.

Security has become the core issue of online banking. The security of online payment information mainly includes three aspects: the confidentiality, true integrity and non-repudiation of information (*MARTA Vidal and JAVIER Vidal-Garcia*, 2017).

Taking online shopping as an example in the entire payment transaction, the security of information is mainly reflected in: first, the security of the bank's website; second, the security of the transaction information transmitted between the merchant and the bank; and third, the transaction information is the security passed between consumers and banks. For computer super hackers, deciphering the programs and passwords of various banks is not a difficult task. In the United States, the economic losses caused by information and cyber security issues are as high as US$7.5 billion each year, and 50% of corporate computer security violations are committed. Therefore, how to ensure transaction security has become the most important issue for online banking.

3 Financial Market Regulation in China

China's financial regulation system refers to the entire set of mechanisms and organizational mechanisms that will exert influence on financial activities in the future, so that specific social economy goals can be achieved. It includes the setup, functions, goals, and concepts of the regulatory institutions.

3.1 The Necessity of China's Financial Market Regulation.

Since the reform and opening up, China's economy has developed at a repaid rate and has achieved remarkable achievements. However, at the same time, the problems have also emerged. For example, the externalities of the banking crisis, the incompleteness of the law, the financial constraints theory, the financial collapse, and so on.

3.1.1 Commercial Banks

Commercial banks have huge *bad assets*. A lot of bad assets mean that the loss of bank deposits and the decrease of liquidity. It will threaten the security of financial system. Stated-owned commercial banks account for 25% of bad debt, loan turnover rate is very low, loan turnover of current assets is 0.8 times per year. The turnover rate of fixed asset ids 0.2 times per year, are 50% and 60% of normal turnover rate. Although in current years due to the intervention of government and bank's efforts there is still a tendency to rebound (*HAN Lian*, 2015).

3.1.2 Non-bank Financial Institutions

Non-bank financial institutions violated regulations, violated regulations, and were chaotic in internal management and accumulated a large amount of bad debts. During the period of economic expansion from 1992 to 1994, urban credit cooperatives, trust and investment companies, and various non-bank financial institutions such as agricultural foundations all conducted a large number of illegal and illegal operations. Internal management was confusing and a large number of bad debts accumulated. After the economy achieved a “soft landing” in 1996, financial risks have become a reality, and some financial institutions have emerged a payment crisis.

3.1.3 Securities Market

In the securities market, *listed companies generally suffer from poor performance* and the prosperity of the capital market lacks a supportive foundation for the real economy. The vast majority of listed companies in the China’s securities market are transformed from stated-owned enterprises. The internal defects of stated-owned enterprises are transferred to listed companies. Although the listed companies have changed the list system, its internal accumulation has not yet been eradicated. The implicit guarantee of the government and the soft budget constraint of the company still exist. This makes the listed company, which is an important cornerstone of the securities market, congenitally insufficient and weakens the resource allocation function of the securities market (*MADURA, Jeff*, 2008).

Due to the fragility of Chinese financial institutions, the mode of financial supervision must strengthen the ability to solve *financial vulnerabilities*. The financial market regulation is so important.

3.2 The Status of China’s Financial Market Regulation.

The financial supervision system refers to the state's supervision and management system for China's financial industry. The solution is to determine who will supervise financial institutions, financial markets, and financial businesses, how to supervise them, who will be responsible for the effectiveness of supervision, and how to be responsible for the problem.

3.2.1 China’s Financial Market Regulation Institution

Institution Development Process

The construction of China’s financial regulation system is roughly divided into two phases.

The first stage was the unified implementation of financial supervision by the People’s Bank of China before 1998.The second stage began in 1998.The supervision of the securities industry and the insurance industry was separated from the unified supervision of the People's Bank of China. The China Securities Regulatory Commission and the China Insurance Regulatory Commission respectively took charge of the supervision and formed the People's Bank of China and the Securities Regulatory Commission. There will be three separate supervisory regulations for the association and the China Insurance Regulatory Commission. In 2003, the China Banking Regulatory Commission was formally established to take over the banking supervisory functions of the People's Bank of China. As a result, China officially established a financial supervision system with separate operations, separate supervision, and three divisions of labor (*GU Xuejin*, 2011).

At present, the basic feature of China’s current financial supervision system is the *separation of industry supervision*. The separation of industry supervision emphasize the security and controllable of the financial system. It is hoped that supervision over financial institutions will be strengthened by restricting competition among financial supervisors.

Financial Supervision Division

According to the division of work of financial supervision, *the China Banking Regulatory Commission* is mainly responsible for the supervision of commercial banks, policy banks, foreign banks, rural cooperative banks, credit agencies, trust and investment companies, financial companies, leasing companies, and financial asset management companies. The China Banking Regulatory Commission has set up a supervision department, a second department, a third department, a cooperative financial supervision department, and a non-bank financial institution supervision department. From top to bottom, the bureau has set up a system of provincial bureaus, municipal branch offices, and city offices.

The Securities Regulatory Commission and the Insurance Regulatory Commission are respectively responsible for the supervision of securities, futures, funds and insurance industry. After the establishment of the China Banking Regulatory Commission, *the People's Bank of China* focuses on strengthening the functions of formulating and implementing monetary policies, taking charge of the payment security of the financial system, and giving play to the central bank's role in macroeconomic regulation and control and prevention and resolution of financial risks.

At the same time, our country's laws also provide for *self-regulation and social supervision* of the financial industry as supplementary supervision. Self-regulation includes financial institutions' self-regulation and industry self-regulation. Social supervision mainly refers to the supervision of intermediary institutions (*GU Xuejin*, 2011).

Financial Supervision Institution

From an *institutional point of view*, the financial supervision power of China's financial supervision system is centralized in the central government, and the financial authorities and relevant agencies established by the central government perform the functions of financial supervision respectively, that is, the China Banking Regulatory Commission, China Securities Regulatory Commission, and China Insurance Regulatory Commission separately supervise banking, securities and insurance institutions. At the market, the People's Bank of China, auditing agencies, tax authorities, and other institutions perform some of the functions of the state.

In this divisional supervision system, *the People's Bank of China is at the core and the highest authority in the country's financial industry*. It is not only responsible for the supervision of the banking industry and the trust industry, but also provides macro-level supervision of the securities industry and the insurance industry. Guide to ensure the healthy development of the entire financial industry. The *China Banking Regulatory Commission* is responsible for supervising the banking industry. *The Securities Commission*, as the State Council's securities regulatory agency, exercises centralized and unified supervision and management of the country's securities market. *The Insurance Regulatory Commission* is responsible for the insurance industry and the insurance market nationwide.

The Impact of this Model

This kind of financial supervision organization structure shows that apart from the central bank's responsibility for macro-control, several other regulatory agencies are focused on the micro-regulatory aspect of the relative industry. The greatest *advantage* of choosing this kind of regulatory system is that it will help improve the level of professionalization of supervision and meet regulatory objectives in a timely manner, which will *help improve the efficiency* of institutional supervision.

As far as China’s current financial supervision system is concerned, the effectiveness achieved since its actual operation is generally good. The financial supervision system not only unifies the regulatory framework, strengthens the professionalization of supervision, and improves the efficiency of supervision. It also helps the central bank to more formulate and implement monetary policies.

3.2.2 The Goal of Financial Market Regulation

The current financial regulatory objectives in China can be divided into two parts. The general goals and specific goals.

General Goals

General goals are aim to prevent and defuse the financial risk and maintain the stability and security of the financial market, to protect fair competition and increase efficiency, in order to ensure the sound operation of China's financial industry and the effective implementation of monetary policy.

Specific Goals

Specific goals are aim to keep the fair of operation, the fairness of competition and the consistency of policies. The security of operations includes two aspects: protecting the legal rights of depositors and other creditors, regulating the behavior of financial institutions, and improving the quality of credit assets. The fairness of competition refers to the creation of an equitable, cooperative and orderly competitive financial environment through the supervision of the central bank and guarantees moderate competition among financial institutions. Consistency of policies means that through the supervision, the operational behavior of financial institutions is consistent with the central bank's monetary policy objectives.

3.3 The Content of the Financial Market Supervision

In recent years, with the rapid development of financial globalization, liberalization, and financial innovation, the opening up of the financial industry has accelerated, and the financial regulatory environment has undergone major changes. The judicial supervision system presents obvious incompatibility, and its inherent problems are gradually revealed.

3.3.1 The Content of the Financial Supervision

Financial supervision should cover all business activities of financial institutions from market access, market operations, and market withdrawal. However, China's current financial supervision mainly focuses on the *market access and market operations of institutions*. Risk supervision is not yet standardized and complete, and there is no corresponding regulatory measure on the daily business operations, asset quality, and financial profit and loss of financial institutions. The lack of the supervision of financial institutions' exit from the market is even more serious.

In recent years, there are also many violations of laws accrued. Because of the lack of the mechanisms, the government and the People's Bank of China can only solve the problems by policies. The national pays a lot of manpower and material resources, it is the waste of resources.

3.3.2 The Measure of the Financial Supervision

Theoretically, there are three kinds of *legal measures*: financial instruments, economic instruments, and administrative instruments. China's financial supervision should be based on legal measure as the main measure, and economic and administrative means as an aid. However, the reality is that the construction of the legal system is lagging, the concept of the legal system is weak, and there are too many administrative interventions. In the specific supervision operations, there are phenomena of non-compliance, lax enforcement, and unlawful investigation. They only focus on the qualitative issue of financial supervision. The quantitative standards for financial supervision issues, thus making the financial supervision department law enforcement seriousness and authority subject to certain restrictions.

3.4 Challenges and Existing Problems in the Current Situation

With the development of China's financial market, more and more problems have occurred.

3.4.1 The Direct Problem

Financial risks directly harm the interests of depositors, investment, and policyholders and also have the risk of economic and social stability. Deposit can't be paid on time, insurance company can't claim on time.

According to the division of work of financial supervision, there is no uniform, continuous and systematic financial supervision. Because of the information asymmetric, and the lack of the information integration and analysis system, the efficiency is very low. The supervisory department is self-contained and lacks a comprehensive monitoring and coordination mechanism. There are many loopholes in the regulatory system, resulting in some illegal violations (*HAN Liang*, 2015).

3.4.2 The problems for the Internal Country

In the situation of further opening of the financial market, foreign financial institutions have entered in large numbers. Foreign banks have a strong international nature, financial transaction technology is complex, and mixed operation is implemented, *the cross-convergence of domestic financial institutions and financial services is also growing in China*. It is necessary for the People's Bank of China, the Securities Regulatory Commission, and the Insurance Regulatory Commission Harmonize to prevent regulatory vacuums and redundant supervision and keep good relationship among these institutions. This puts forward new requirements for China's financial supervision model.

The main problems in China's financial supervision include:

- Single supervision,
- Lack of independence of regulatory authorities,
- Lack of regulatory incentives,
- Inadequate supervision due to the lack of effective penalties.

First, at present, the supervisory function of commercial banks is mainly the responsibility of *the People's Bank of China*. Although there are a lot of people responsible for supervision and regulations, and various regulations and regulations are also very clear, due to the fact that a single supervision channel will inevitably bring about ill-informed information, the regulatory effect is not satisfactory.

Second, *financial risks* increase the government's fiscal expenditure and damage the country's strength. The high rate of the bad debt and the liquidation of companies, these losses all need the help of government. Especially when the financial capital of Chin's financial institutions is too low, taking into account the stability of China's financial system, financial capital can only be increased from financial sources. Financial risk also hurt the stability of national currency.

Third, the People's Bank of China not only undertakes the tasks of financial supervision but also is responsible for the implementation of monetary policy. It aims to promote economic development in a very important position. The multiple objectives of the central bank often conflict with each other, and monetary policy goals are confused with regulatory objectives. As a functional department of the government, the central bank's supervisory departments are intervened by governments at all levels, and they are uncertain about multiple objectives and lack the conditions for independent implementation of regulatory policies.

Forth, *lack of effective incentives*. In the environment where the current hypocrisy has become windy, the law has not ruled the people, leading people of the Central Bank Supervisory Bureau and subordinate branches and sub-branches of the sub-branches to not strictly enforce the law in the supervision process.

3.4.3 The Problems for the international

As China's economic status improves internationally, the Chinese economy is gradually expanding its influence on the world. And as part of the world economy, the world economy has also had a great impact of China. Financial risk has damaged the credibility of financial institutions in the international wide, shark the confidence of public in the financial system.

3.5 The Reform in the Future

Due to the rapid social economic development and integration with the world, China's financial industry has slowly integrated into the world's operational track and has become an integral part of the international financial industry.

3.5.1 Strengthen the Management

Clearly define the leadership structure and responsibility of the supervisory department. Clarity the goals, formulate and implement the regulation plans. Establish an internal high-efficiency operation and coordination mechanism based on financial regulatory functional departments and other functional departments to strengthen the synergy and effectiveness of financial supervision. Further establish a “three-in-one” regulatory structure, in which the financial regulatory agencies regulate according to law, the financial institutions operate in accordance with the law, self-regulation, and social audit supervision. Thus, China should improve the methods of financial supervision, and in the same time, reducing the regulatory costs and focusing more on the effectiveness.

3.5.2 Improve the Law

China should establish and improve a sound financial and legal system, establish a legal framework for the operation and supervision of banks and non-bank financial institutions, strengthen the legal system of financial supervision, and supervise the supervision of financial supervision. Judging from the current types of laws and regulations, China has already enacted and implemented relevant laws and regulations to provide basic legal safeguards for the supervision work. However, in order to adapt to the overall supervision of the financial industry, it is necessary to formulate more relevant laws to these basic laws. *Professional laws, regulations, and regulations, formulate and improve specific targeted and operational financial industry supervision methods.*

Second, China must *establish a sound supervision mechanism* to ensure all the measures are implemented.

Third, China should *strengthen the implementation of laws and regulations on financial supervision*, establish a strict economic punishment mechanism, and strengthen the deterrent power of punishment.

3.5.3 Improve the Skills

In terms of information systems, it is necessary to overcome the asymmetry of information, *speed up the electronic construction of financial supervision, and establish a regulatory information center*. China can also use the advanced equipment such as computer network to establish an internal database and information network platform. Developing database and information network platform management methods to maximize the utilization of information resources, reduce regulatory costs, and improve regulatory efficiency.

3.5 Reform for the Globalization

China should increase the intensity of financial reforms and implement supporting strategies for the reform of the financial system and the reform of the financial supervision system, and gradually achieve the international integration. China should *learn from the experience of excellent financial supervision*, cultivate and train a large number of high-quality modern economic managers, and do a good job of self-regulation (*ZHAO Bo*, 2008). China should *improve the internal incentive and restraint mechanisms of the regulatory authorities*, actively create conditions for attracting and retaining talents, and provide professional training for existing supervisory personnel, send them to foreign banks or other financial institutions and supervisory authorities for learning, and study modern international supervision to improve the regulatory capability.

4 Financial Market Regulation in the USA

The USA's financial regulation refers to the entire set of mechanisms that will exert influence on financial activities in the future. It includes the system, functions, goals, and concepts of the regulatory institutions.

4.1 The Basic Situation of U.S. Financial Supervision

The United States was the first country to establish a financial separation supervision system, and it is also a country with a relatively complex financial supervision structure.

4.1.1 The Development Process

The establishment of the US financial regulatory system is the same as that of other systems. It is not an overnight process. It is also a process of gradual development and evolution.

In order to cope with the economic crisis of 1929-1933, the US financial supervisory authorities chose the supervision system for *separate industries*. After the "Financial Services Modernization Act" passed in 1999, the United States re-established the financial system of *mixed operation*. For a long time, the United States' financial supervision has been regarded as the most efficient monitoring system in the world.

The outbreak of the subprime mortgage crisis in 2007 caused a serious impact on the US financial system. A large number of financial institutions went bankrupt and seriously affected the international economy, which exposed the deficiencies of the US financial regulatory system. Under this situation, in July 2010, the United States passed the most reformed and most far-reaching financial regulatory reform bill so far, the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, which regulates banking and capital markets in the United States. The United States has in-depth innovation and has brought far-reaching influence to financial supervision and control in various countries.[7]

4.1.2 The System

The combination of institutional supervision and functional supervision in the U.S. financial supervision system is a typical *“double-headed” regulatory system*. "Double" means that the federal government and state governments all have financial supervision powers, and "multiple" means that there are multiple departments that have supervisory duties.

Federal Level of Institutional Supervision

In the most basic category of jurisdiction, the U.S. federal sub-sector supervision structure is as follows: The Federal Reserve (FRD), the Federal Deposit Insurance Corporation (FDIC), and the Currency Supervision Agency (OCC) are jointly *responsible for the supervision of commercial banks*. The Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC) and the United States Investor Protection Corporation (SIPC) are jointly *responsible for the supervision of securities and futures institutions and the securities and futures markets*. The OAS oversees all federal and state registered deposit and loan institutions that are part of the savings agency insurance fund; the National Credit Union Agency (NCUA) oversees all credit unions participating in *federal insurance*.

In terms of the decentralization of the three banking regulatory agencies, except for the exclusive access of the Bank to the approval authority by the Office of the Monetary Authority, the three agencies exercise general rights of supervision in information reporting, mergers and acquisitions, bankruptcy bank takeovers, and administrative relief.

However, there are *significant differences in supervision in other areas*. For

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[7]Source:https://www.federalreserve.gov/paymentsystems/over_about.htm

example, in terms of bank capital adequacy ratio standards, the standards of the Fed and the Currency Supervision Department are in line with the Basel Accord, and the standards of the federal insurance company are the provisions of the capital leverage ratio, that is, the ratio of Tier 1 capital to total assets.

In terms of on-site inspections, the Fed can exercise the right to conduct on-site inspections only if the bank has the potential to induce systemic risk factors, and the Currency Supervision Department and deposit insurance companies can perform frequent on-site inspections based only on the principle of prudence. In terms of the internal control system of banks and the competence of senior executives, the Office of Bank has direct veto power. The Fed generally does not directly intervene unless there are sufficient reasons to believe that there are serious risks in the internal risk control of banks.

The decentralization of *the US Securities Regulatory Commission and the Futures Trading Commission* is relatively clear. The former has exclusive supervision over securities institutions and national securities markets, and the latter has exclusive supervision over the trading institutions and products of commodity futures. However, there are crossovers and conflicts between financial derivatives, especially financial futures and financial options.[8]

Federal Level of Functional Supervision

Functional supervision is mainly reflected in *financial holding companies*. Subsidiaries of all types of financial holding companies are supervised by the corresponding industry regulators.

For example, the securities subsidiary of a bank holding company is supervised by the China Securities Regulatory Commission. In addition, the holding companies in the industry are also supervised by their respective industry regulators. Therefore,

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[8] Source:http://gjs.mof.gov.cn/pindaoliebiao/cjgj/201407/t20140708_1109871.html

the bank holding company (BHC), the savings and loan holding company (THC), and the securities holding company (SIBHC) are supervised by the Federal Reserve, the S&L Club Regulatory Authority and the Securities Regulatory Commission.

For a *financial holding company that has a cross-industry subsidiary,* the parent company's supervision implements a system in which umbrella supervision and joint supervision coexist. The Federal has the right to supervise all financial holding companies, the so-called umbrella supervision. However, under the umbrella supervision, financial supervisory companies that have large-scale subsidiaries in other industries can also be supervised by the relevant industry regulators. For example, after a traditional bank holding company acquires a securities subsidiary, the Securities Regulatory Commission has the right to supervise it as its "*joint supervision*" agency.

The USA establishes a *financial holding company* as an institutional framework for the USA financial mixed operations. In the regulatory relationship between depository institutions, securities, and insurance, the USA reserves the right to comprehensively supervise financial holding companies, and if necessary, securities, insurance, and so on. The subsidiary has the right to arbitrate, so the *Federal Reserve* is the only federal agency that can supervise the banking, securities, and insurance industries at the same time, and its functions are above and beyond certain other regulatory agencies.

State Level of Financial Regulatory Structure

The USA state government has a variety of financial regulatory powers, the most complete of which is in the *insurance industry*. There is no insurance regulatory agency at the federal level in the United States, and the state government has all oversight of insurance agencies.

The state government also enjoys greater power in commercial banks, credit unions, and credit cooperatives. The division of ownership is based on the principle of "who approves and who administers". That is, the federal government issues licenses to the federal government and the state government licenses are regulated by the state government. The state's securities regulatory power is smaller than other industries, and the US Securities Regulatory Commission, the Futures Trading Commission, and the industry self-regulatory organizations implement vertical supervision of securities institutions (Asoncapital, 2009).

4.2 The Problems of the Financial Market Supervision

The financial supervision system in the United States has always been regarded as a model of success. Under this kind of supervision mode, the supervisory bodies have a clear division of the objects and scope of supervision and are the economic performance of the *"decentralization and balance" spirit*. In a relatively single era of financial instruments, such a regulatory system can effectively prevent risks.

The financial crisis has caused financial innovation and the shadow banking system to suffer criticism, and it has also made financial supervision and its exposed issues a focus of public concern (*HOWARD Davies and DAVID Green*, 2009）

However, with the advancement of financial innovation and the rapid development of the derivatives market, *the "double" regulatory system presents a variety of deficiencies*, overlapping supervision, regulatory vacuum, and out-of-control supervision at the same time, and fully exposed in the subprime mortgage crisis. After the crisis broke out, international financial organizations and academia had conducted a lot of research and reflection. The G20 London Summit communique pointed out that the major mistakes in financial industry and financial supervision measures are the root causes of the crisis.

4.3 The Main Contents of the USA Financial Regulatory Reform

In July 2010, *the United States made major changes to the financial supervision system*. The core contents of the reform are: First, the regulatory focus shifts from monitoring local risks to monitoring systemic risks in the financial market. Second, standardizing financial product transactions, and strictly regulating financial derivatives, hedge funds, and rating agencies to eliminate regulatory vacuums. The third is to optimize the organizational structure of the financial supervision system, integrate some of the regulatory agencies, and strengthen coordination among them. Fourth is to strengthen the Fed's supervision rights and expand its scope of supervision. Fifth is to protect consumer interests as one of the regulatory objectives.[9]

4.3.1 Prevent Systemic Risks

The first is to *establish a financial stability supervision committee*. Members include senior officials of the Secretary of the Treasury, the chairman of the Federal Reserve, and the seven financial regulatory agencies. Their main responsibilities are to identify the factors that threaten the stability of the financial system and regulatory loopholes, and propose adjustments to various regulatory agencies. When some financial companies are too large or too dangerous and may threaten financial stability, the committee may propose to the Fed to impose stricter controls on them and limit their expansion activities such as mergers and acquisitions.[10]

The second is to *restrict speculative transactions of large financial institutions*, to re-separate the business of commercial banks and investment banks, prohibit banks from making use of deposits that participate in federal deposit insurance, conduct proprietary trading, investing in hedge funds or private equity funds, in order to prevent financial risks.

The third is to *carry out financial derivatives reforms*. The vast majority of OTC derivatives are required to be conducted through third-party exchanges and clearing houses so that market and regulatory agencies can track these transactions.

The fourth is to raise the bank's capital standards. Such as, implement higher

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[9]Source:https://www.investopedia.com/terms/d/dodd-frank-financial-regulatory-reform-bill.asp

[10]Source:https://www.federalreserve.gov/newsevents/speech/bernanke20090507a.htm

standards of capital adequacy and leverage ratio requirements for systemically important banks.

The fifth is to establish a liquidation and bankruptcy mechanism for financial institutions. The FDIC's liquidation function will be extended to large-scale non-bank financial institutions. When the failure of large financial institutions will seriously damage the U.S. economy, the FDIC will use this mechanism to take over, split or liquidate.

4.3.2 Consumer and Investor Protection

The concept of consumption and investor protection runs through this financial regulatory reform.

The bill provides for the establishment of an independent *Financial Consumer Protection Agency* within the Fed to protect financial consumers from unfair and fraudulent financial transactions, and is mainly responsible for supervising credit and mortgage loans provided by banks and financial services to consumers. Such as personal financial products; Investor Advisory Committee and Investor Protection Office are established within the US Securities Regulatory Commission; more complete information disclosure is required for credit rating agencies, including internal operations of rating companies, rating methods, and historical performance, and so on. Establish new credit assessment standards to reduce the reliance of regulators and investors on rating companies.

4.3.3 Focus on the Role of Shareholders

Strengthening the role of shareholders in corporate governance and determining executive compensation.

It provides that the US Securities Regulatory Commission has the power to entrust *shareholders with "agency participation"* authority to facilitate shareholders to nominate directors candidates to the board of directors; shareholders of listed companies have non-binding voting rights for the company's executive compensation; the board's subordinate remuneration committee is entirely composed of independent directors. Allowing regulators to forcibly suspend financial institutions' improper and unwitting remuneration packages requires financial institutions to disclose all incentive elements in remuneration agencies, and the US Securities Regulatory Commission has recourse rights for executive compensation for listed companies based on erroneous financial information.

4.3.4 Improve the Financial Supervision System

First, *reorganize the bank supervision agency*, merge the supervision of the savings agency supervision office into the Currency Supervision Department, transfer some of its functions to the Fed and the Federal Deposit Insurance Corporation; the Fed is responsible for supervising the bank holding company and some state-registered banks, and the supervision of the currency supervision agency by the Federal Register. Banks, while the FDIC is responsible for supervising state registered banks.

The second is to *expand the Fed's supervision scope*, expand the Fed's power, break the financial sector's "big but not down" dilemma, allow the separation of financial institutions in trouble and prohibit the use of taxpayer funds to rescue the market. The Fed will supervise the executive compensation of the company and ensure that the executive compensation system will not lead to excessive pursuit of risk.

The third is to *increase the transparency of the Federal*. The accountability bureau of the US government's subordinate government audits and supervises the emergency loans, low-interest loans and open market transactions issued by the Federal Reserve Bank.

4.4 The Impact on the Financial Supervision

Human beings are progressing through continuous reforms. The reform of the USA financial market supervision system has brought a tremendous impact on the USA's financial supervision.

4.4.1 Impact on the Idea of the Financial Supervision

Before the subprime mortgage crisis, the standpoint of the development of modern financial regulatory regulations in the United States is the firm belief in *market forces*. Market constraint mechanisms are the best regulators. They believe that the government is inefficient with regard to excessive financial supervision, and it is not conducive to the optimal allocation of financial resources.

However, the outbreak of the subprime mortgage crisis not only rejected the complete endogenous nature of the market mechanism, but also reflected *the importance of government intervention*. Afterwards, the United States has strengthened financial supervision in many aspects, suspended the trend of "deregulation", worked hard to improve and improve the technology of financial supervision, and adjusted the regulatory framework and regulatory rules to change the original system's inability to adapt to the financial system. And try to put all financial products and financial market participants under financial supervision.

4.4.2 Impact on Financial Institutions

Standardize the business of *financial institutions* and emphasize returning to traditional areas. Regulatory reforms have restricted the scope of business and experience of financial institutions such as banks and investment banks, and institutions' proprietary operations, high-risk derivatives transactions, and complex financial product designs have been banned or placed under strict supervision. At the same time, the size of financial institutions has also been restricted, and the procedures and measures for the separation of financial institutions have been established to further restrict the risk behavior of financial institutions.

Facilitate counter-cyclical thinking in financial institutions. The purpose of systematic risk supervision is to maintain financial stability. The starting point is the interaction mechanisms, it is also the positive feedback mechanism, between macroeconomic operation and financial operation. This interdependent relationship will expand the cyclical fluctuations of the economy. Therefore, financial institutions are encouraged to revise their risk assessment methods, identify asset losses earlier, change the static, pro-cyclical business model, and incorporate counter-cyclical operations into macro-economic interaction with the financial system, in order to reduce the losses due to miscalculation of financial circle.

4.4.3 Impact on the Financial Supervision Model

The U.S. reform of financial supervision has changed the supervision methods that used to emphasize only micro-prudential supervision in the past. With the goal of maintaining financial stability and preventing financial crisis, *all financial sectors have been included in the regulatory framework*, and a series of regulatory measures have been proposed to achieve *cross-financial markets*. Information sharing and coordinated supervision among different regulatory agencies with cross-institutional functions will put macro-prudential supervision into practice and effectively make up for the lack of micro-prudential supervision on systemic risk supervision (*ZHENG Liansheng and ZHAO Bo,* 2008).

5 Comparison of the Selected Markets

In the last two parts, this thesis analyses the China's and the United States' financial market supervision in detail. In this part, it is necessary to compare the differences and links between the two countries.

5.1 The Development Process

The US financial market started earlier than China, and the development history of different countries is different. Therefore, the development process of financial market supervision in these two countries is also different.

5.1.1 China

The initial stage of 1985 to 1992 exercise the financial supervision function for the central bank special; 1993 to 1994 for the rectification and compliance regulation stage; 1994 to 1997 to 1997 to 2003 to enter the stage of law; reform deepening stage; since 2003 the implementation of multiple institutions in the stage of financial supervision.

The basic characteristics of Chinese current financial supervision system is *separate supervision*, at present has formed the People's Bank of China (PBOC), China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC), China Insurance Regulatory Commission (CIRC), "three" regulatory system, the CBRC to the bank, as the main body of supervision system, banking financial institutions to the Commission as the main body of the bond futures supervision system, the China Insurance Regulatory Commission as the main body of the insurance supervision system, and established a three-party "supervisory joint conference mechanism" for banks, securities, and insurance to reflect a strict separation of regulatory models.

5.1.2 The USA

The USA financial regulation started earlier, from mid nineteenth Century to twentieth Century, 20 and 30s were initially formed. At the end of 1970s, a period of comprehensive supervision was launched. With the financial innovation wave in the late 1970s period, financial regulation was loosened. Until the outbreak of the Asian financial crisis, it entered the period of financial re regulation. In November 4, 1999, the U.S. Congress abolished in 1933 to develop a "Grasse-Steagall Act", passed the "1999 Financial Service Law" (*TATOM, John A*, 2011), the current financial supervision appears to double, multiple, separate and other characteristics, is *not completely unified supervision mode*.

The Federal Reserve, Federal Deposit Insurance Company, the Justice Department, the securities and Exchange Commission and the Commodity Futures Trading Commission, savings institutions supervision office, the national credit cooperative administration and the Federal Trade Commission, the state insurance supervision department, even the FBI and other agencies are starting from their respective duties of supervision and management of commercial banks.

5.2 Status of the Financial Supervision in China and the USA

The USA financial industry has long implemented a *"double-headed" financial supervision system*. The so-called "double" refers to the financial supervision departments at both the federal and state levels, and the "multiple" is the establishment of a number of regulatory agencies to exercise different supervisory duties. The USA adopts the "double-head" separation supervision system, which is compatible with the federal political system of the state, and the USA regulatory system has a history of more than 100 years. They have formed a relatively mature regulatory philosophy and institutional setup.

In contrast, the construction of a complete regulatory system in China started from reform and opening up. Only more than 20 years ago, various systems were not mature enough to be in the stage of exploration and perfection.

The USA has established a series of *legal system*. Since the 1930s, the United States Congress has passed a series of financial regulations as the basis for implementing regulation. Bank supervision in the United States is not only based on a large number of laws and regulations, but the regulations of the Federal Reserve Board are also very detailed. More special is the securities industry regulation, the United States securities trading by the securities and Exchange Commission is not directly to the brokers and dealers supervision, but by the establishment of a variety of securities self-regulatory organizations, such as the New York stock exchange and NASDAQ are self-regulatory organizations, securities and Exchange Commission to regulate and supervise the self-discipline organization, then supervision by the self-regulatory organization.

Before China's financial industry is established, the people's Bank of China shall supervise and manage the financial institutions and businesses in accordance with the law, and maintain the lawful and stable operation of the financial industry. With the establishment of separate supervision system, the function of financial supervision is separated from the people's Bank of China and implemented by China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission. China has also established laws and regulations related to financial supervision.

The disadvantage of China’s financial market regulation is that the industry *self-regulatory agencies are relatively independent*. They are often subordinate to the relevant departments, so that their proper role is hard to give full play to. In addition, compared to the U.S. regulatory system the leading role of the financial market, the government rarely intervene, when a problem noticed government began to take measures to deal with, so it is easy to lead to regulatory lag; in contrast, Chinese financial market freedom is relatively low, the higher degree of government intervention, which is consistent with the China financial market is not perfect and developed the reality (*ZHAO Bo*, 2008).

5.3 The Content of the Supervision

In the part of financial supervision, there are also some differences and links in the content between the two countries.

5.3.1 Content of the Financial Supervision

The process of China's financial supervision is still in the transition from the traditional risk supervision of regulatory compliance to the static level in the daily operation of financial institutions risk supervision is confined to the credit risk and liquidity risk, does not involve market risk and operational risk; the credit risk also does not include the country risk and the transfer of risk. This situation is very difficult to adapt to the deepening of the financial reform and the new situation of the full opening of the financial industry.

In addition, the process of financial supervision in the U.S. financial regulatory authorities attach great importance to the *information disclosure system*, information disclosure is to ensure that an inherent requirement of financial institutions capital adequacy, but up to now, China's financial institutions in the information disclosure and financial institutions are still seriously lagging behind, disclosure of information is too small, the financial industry is not high transparency. The extreme asymmetry of information leads to depositors' usual deposit in the condition of that financial institutions are extremely low or even negative, causing serious risks.

Take the *banking industry* as the comparison object, the financial regulatory authorities for the management in the process of supervision from the capital adequacy ratio, liquidity requirements, loan concentration, the relationship between foreign exchange risk management, interest rate regulation, market exit of financial institutions and other aspects of supervision. The capital adequacy ratio can reflect the bank's ability to resist financial risk from different angles.

The Federal Reserve has set the minimum capital standard for national bank, state member bank and Bank Holding Company since 1981,in that time, the basic requirement for the capital adequacy of banks and Holding Company is that the ratio of primary capital to total capital is 5.5% and 6%.

China's capital requirements for commercial banks, except for the minimum standards required at registration, generally require banks to maintain an appropriate proportion of their own capital and total assets, total deposits, total liabilities and venture capital. In the same way as the demand for capital adequacy, the bank regulatory authorities of China and the United States also have a clear requirement for the liquidity requirements of the assets. For example, the liquidity regulatory index of the central bank to commercial banks requires that the ratio of current assets should not be less than 25% (*GU Xuejn*, 2011).

5.3.2 Methods of the Financial Supervision

The methods of financial supervision can be divided into two forms, on-site inspection and off-site inspection. *On-site inspections* are often used by the US financial regulators to conduct at least one on-site inspection of all banks every year. The USA Federal Reserve authorities conduct on-site inspections and audits of the branches and institutions of the US bank abroad. The branches and subsidiary offices of foreign banks in the United States should be inspected and audited routinely.

The central bank has taken Chinese *on-site supervision and off-site supervision combination* of financial institutions, such as the illegal operation of the investigation and inspection of foreign exchange, check the authenticity of these checks, etc.; both parallel to the inspection agency, and cross examination; both arranged around the self-check, and the national organization of the bank a business or check, in order to improve the frequency of inspection and ensure the healthy development of the finance. From the present situation of the financial supervision methods in China, it shows the tendency of heavy field inspection and light non field inspection.

From the past history, *one-site inspection* has the characteristics of finding problems directly and solving problems quickly, and has played a great role in the financial supervision of our country. In the off-site regulation, financial institutions' reports are not real or serious, making the off-site supervision lack of reliability and authenticity, which will inevitably bring about fatigue and lagging in supervision. Nowadays, the role of off-site supervision is becoming more and more significant in today's computer network. However, the off-site supervision in China has not been well implemented due to the backward technology.

5.3.3 Model of the Financial Supervision

The United States is the first country to establish a financial division supervision system. After more than 80 years of development and changes, the United States has developed a complex "*multiple supervision model*."

In general, China adopts the mode of *division supervision,* and the United States belongs to *the incomplete unified supervision mode*, and the two have the characteristics of separate supervision at the same time. The Federal Reserve and the people's Bank of China both formulate and implement monetary policies, which are all in the leading position in the financial system. There are regulatory overlapping, duplication and loopholes in China and the United States. According to different types of financial businesses, the United States is supervised by different subjects. It belongs to functional supervision. China is regulated by different financial institutions. It belongs to institutional regulation.

5.4 The Facing Problems

The legal and regulatory system of China's financial supervision is becoming more and more perfect, but there are still problems. The present situation of our country is: too many non-market factors of financial supervision by the regulatory intervention, behavior of strong administrative color; supervision mechanism of the regulatory agencies, whether internal or external mechanisms are not perfect; the regulators responsibility form only to administrative punishment mainly. In contrast, the US financial regulation and regulations are more operable and more executive, which is the direction of China's financial regulation to further improve the legislation of financial supervision.

5.5 The Inspiration from Each Other

Although there are a lot of differences between China and the USA, both of the two countries can learn a lot of things in the financial market supervision from each other.

5.5.1 Inspiration to China

First, *an effective collaborative supervision mechanism* should be established, with emphasis on strengthening the supervision of large-scale financial institutions that are systemically important.

With the development of China's economy and finance, a number of large-scale financial holding groups have formed, showing the development trend of mixed-industry operations, which may lead to institutional conflicts between split-sector supervision and mixed-business operations. Therefore, it is necessary for China to establish a coordination mechanism for financial supervision among the central bank, the China Banking Regulatory Commission, the China Securities Regulatory Commission, and China Insurance Regulatory Commission to meet the needs of the development trend of mixed-business operations.

Second, we should establish and improve the *legal system of financial supervision*. Supervision system is the legal basis of supervision behavior, and supervision by law is not only the premise and guarantee of effective supervision, but also the common practice of financial supervision in various countries (*ZHAO Bo*, 2008).

The American model *law network* is meticulous, and the supervision is strict. It is operable and execrable. For China, on the basis of most laws stipulate the principles of regulatory legislation, we should rise to the level of legality through the form and procedure of supervision, or the specific application of various methods.

From the perspective of the overall structure of the current law, China should reduce the proportion of rules and regulations, improve the authority of implementation, and reduce the conflicting laws and regulations between laws. In addition, China should strengthen the regulatory mechanism of the regulators, maintain the legitimate rights and interests of the supervisors and others, and realize the efficiency of supervision and social fairness.

Third, while encouraging innovation in financial products, it must also *strengthen its risk supervision*. On the one hand, China should clarify the regulatory agencies and regulatory systems for financial derivatives, establish a unified clearing system, and steadily push forward the development and expansion of the domestic financial derivatives market; on the other hand, China should set up domestic companies to participate in international derivatives market transactions. Determine the appropriate regulatory agencies and conduct strict supervision to prevent excessive speculation.

Finally, China must strengthen the protection of *the rights and interests of financial consumers and investors*. In recent years, incidents of domestic financial institutions being complained by consumers have frequently occurred. The reason is that the asymmetric information and professional knowledge of financial institutions and ordinary investors make financial consumers disadvantageous. In this regard, China can learn from the recommendations of the Consumer Financial Protection Agency proposed in the US financial reform program to establish a consumer financial protection agency that is independent of other financial regulatory agencies and devotes itself to the rights protection of financial consumers.

5.5.2 Inspiration to the USA

The USA financial supervision is *self-disciplined financial supervision*. It places more emphasis on the leading role of the financial market. The government seldom intervenes on it until the government agencies have noticed that this type of supervision model is more passive and easier to predict and control financial risks.

The USA should make the financial system more secure and stronger. Consumers are given more rights, more protection, financial markets are more transparent, and regulators have new tools to monitor and mitigate the threat of the financial system.

First, the government should set up a Financial Services Supervision Committee to monitor systemic risks while promoting cross-sector cooperation. The government should *strengthen the Fed's power* and the scope of supervision should be extended to all companies that may pose a threat to financial stability. In addition to bank holding companies, hedge funds, insurance companies, etc. will also be included in the Fed's supervision. At the same time, a national bank supervision agency should also be set up to supervise all banks that have a federal license.

Second, the USA should *establish a comprehensive supervision of the financial market*. Strengthen the supervision of the securitization market, including increasing market transparency, and strengthening the management of credit rating agencies, creating and issuing parties must assume certain risk responsibilities in the relevant credit securitization products. Give the Fed the authority to supervise the financial market's payment, and settlement systems.

The third should *establish international regulatory standards and promote international cooperation*. It is necessary to reform the corporate capital framework, strengthen the supervision of the international financial market, strengthen the cooperation supervision of multinational corporations, and strengthen the international crisis response capabilities.

China and the United States should always pay attention to reflect their own problems while continuing developing themselves, and at the same time strengthen themselves and study from each other, and constantly learn to improve the financial market supervision system.

Table.5 The Summary of the Comparison of Financial Market Regulation in China and the USA

	China	The USA
Financial Supervision Model	Separated operations, separate supervision	Mixed operation, separate supervision
Measure	Administrative intervention	Self-disciplined financial supervision
System	“one bank and three departments”	“double-headed”
Supervision Institutions	PBOC, CBRC,CSRC,CIRC	FRB,FDIC,SEC,CFTC, SIPC,NCUA
Related Laws	“People’s Bank of China Act” “Commercial Bank Law” “Savings Regulations”	"Glass-Steagall Act" "1999 financial service law" “Financial Services Modernization Act”
Method	On-site inspection	On-site inspection

Through the table above it can clearly see the difference in financial market supervision in China and the USA among the supervision model, measures, system, institutions, and the related laws.

6 Conclusion

Many studies have shown that financial supervision is linked to financial crisis. Whenever financial crisis occurs, financial supervision will immediately become the focus of attention.

From the perspective of the entire regulatory framework of the financial system, the United States implements “double-headed” supervision, China implements “one bank and three departments” supervision, and the United States’ main regulatory authority also corresponds to China. Such supervision activities at all levels cooperate with each other. This will help reduce blind spots in financial supervision, increase supervision efficiency, and ensure the efficient operation of the financial market. However, its disadvantage is that it tends to cause excessive supervision or regulatory gaps. In contrast, the degree of freedom of the Chinese financial market is relatively low and the level of government intervention is relatively high.

In short, what kind of financial supervision system a country chooses does not have a uniform standard. It is entirely determined by the country's politics, economy and culture. There is also no perfect financial supervision system in the world. Any country should formulate its own financial supervision system in accordance with its own national conditions. At the same time, it can actively learn and absorb the mature regulatory system in other countries and gradually improve its financial supervision system.

Therefore, the two countries should avoid weaknesses and learn from each other, in order to improve the financial market regulation, to enable the financial market to operate effectively, the financial industry continues to develop and improve, social development is more harmonious, and raise the people’s social welfare.

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List of Abbreviations

PBOC:the People's Bank of China

CSRC:China Securities Regulatory Commission

CBRC:China Banking Regulatory Commission

CIRC:China Insurance Regulatory Commission

FRD:the Federal Reserve

FINRA:the U.S. Financial Industry Regulatory Authority

FDIC:the Federal Deposit Insurance Corporation

SEC:the Securities and Exchange Commission

CFTC:the Commodity Futures Trading Commission

NCUA:the National Credit Union Agency

SRO:the self-regulatory organization

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Xiongting Li 李熊婷

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Annex 3 The Institutions of the Financial Supervision in China

Annex 4 The Institutions of the Financial Supervision in the USA

Annex 1

The Laws of the Financial Supervision in China

The People's Bank of China Law

The People’s Republic of China Law of the People’s Republic of China is designed to establish the status of the People’s Bank of China, clarify its responsibilities, ensure the correct formulation and implementation of the national monetary policy, establish and improve the central bank’s macro-control system, and maintain financial stability. This law is enacted. The third session of the Eighth National People's Congress was passed on March 18, 1995, and will come into force on the date of promulgation.

The People's Republic of China Commercial Bank Law

The Law of the People's Republic of China on Commercial Banks protects the legitimate rights and interests of commercial banks, depositors and other customers, regulates the behavior of commercial banks, improves the quality of credit assets, strengthens supervision and management, guarantees the stable operation of commercial banks, and maintains financial order. Development of a socialist market economy. It was issued and implemented by the Standing Committee of the National People's Congress on September 10, 1995.

People's Republic of China Social Insurance Law

The "Social Security Law of the People's Republic of China" is an important law that plays a role of support in the socialist legal system with Chinese characteristics. It is a law that focuses on ensuring and improving people's livelihood. Its promulgation and implementation is another milestone in the construction of China's human resources and social security legal system. It aims to establish a social security system covering both urban and rural residents, and better protect the legitimate rights and interests of citizens participating in social insurance and enjoying social insurance benefits, so that citizens can share development. The achievements and the promotion of the building of a harmonious socialist society are of great significance. The "Social Security Law of the People's Republic of China" was passed by the Seventeenth Session of the Standing Committee of the Eleventh National People's Congress of the People's Republic of China on October 28, 2010 and is hereby promulgated. It will come into force on July 1, 2011.

Savings Regulations

In order to develop the savings business, protect the legitimate rights and interests of depositors, and strengthen savings management, these Regulations are formulated. Several provisions of the People's Bank of China on the implementation of the "Regulations on the Administration of Savings" were promulgated by the People's Bank of China in 1993.01.12.

Annex 2

The Laws of the Financial Supervision in the USA

Glass-Steagall Act

After the great crisis in the 1930s, US legislation severely separated investment banking and commercial banking operations to ensure that commercial banks avoid the risks of the securities industry. The bill prohibits banks from underwriting and operating company securities and can only purchase bonds approved by the Federal Reserve.It was proposed by Democratic Senator Carter Glass and Representative Henry B. Steiger. The content, for example, allows the Federal Reserve System to adjust interest on the storage account, and was removed by the deregulation and currency control laws of the savings agency in 1980. The prohibition on bank holding companies from owning other financial companies was canceled by the Financial Services Law Modernization Act that came into effect on November 12, 1999.

In 1948, under the influence of the American occupation authorities, the Japanese financial industry also formed a separate business model.

Marcy Capttier revisited the efforts laid out in the Glass-Steagall section of 2011. Now, in Europe, especially in France, Germany and Italy, a growing number of think tanks call for the use of the national or EU legislation based on the Glass-Steagall Act to manage banks.

U.S. Financial Regulatory Reform Act

U.S. Financial Regulatory Reform Act The U.S. Senate passed a bill on a wide range of U.S. financial market reforms; the U.S. bill reflects the general public's anger on Wall Street and may force U.S. financial companies to make major adjustments. This financial reform bill may involve almost all financial sectors, from new derivative financial products to the use of consumer debit cards, or it will reshape the US government's response and supervision over the financial system. July 15, 2010 passed by the United States Senate.

Financial Services Modernization Act

The Financial Services Modernization Act was a U.S. federal act that was promulgated by the Clinton Administration in 1999 and focused on financial mixed operations.

The series of important articles proposed by the Act are divided into seven chapters, namely: Promoting joint operations between banks, securities companies and insurance companies; functional supervision; insurance; single savings association holding company; privacy; federal housing banking system modernization; and other conditions. The focus of this law is on the privacy data protection of the financial services industry.

Annex 3

The Institutions of the Financial Supervision in China

PBOC

Under the leadership of the State Council, the People's Bank of China formulates and implements monetary policies to prevent and defuse financial risks and maintain financial stability.According to the "Law of the People's Republic of China on the People's Bank of China", the People's Bank of China, under the leadership of the State Council, independently implements monetary policy according to law, performs its duties, and conducts business, free from interference by local governments, social groups and individuals.

The main business is the formulation of monetary policy, supervision and auditing, credit services, treasury management, and credit management.The Central Bank Law stipulates that the People's Bank of China shall supervise, administer, and give guidance to the banking business. According to the People's Bank of China Law, the People's Bank of China must manage the total amount of money in circulation and maintain the normal operation of the payment, clearing, and settlement systems.

CSRC

The China Securities Regulatory Commission (CSRC) is a state-level institution directly under the State Council. It supervises and administers the securities and futures markets throughout the country in accordance with laws, regulations, and the authorization of the State Council, safeguards the order of the securities and futures markets, and ensures their legal operation. The State Council stipulates in the "Regulations on the Administration of Futures Trading" that "the China Securities Regulatory Commission will exercise centralized and unified supervision and management of the futures market." Inside the China Securities Regulatory Commission, there is a special department for the supervision of futures, which is the functional department for the supervision and management of the futures market by the China Securities Regulatory Commission.

CBRC

The China Banking Regulatory Commission was established on April 25, 2003 and is a state-level institution directly under the State Council. According to the authorization of the State Council, the Bank supervises the management of banks, financial asset management companies, trust and investment companies and other deposit-taking financial institutions, and maintains the legal and sound operation of the banking industry.

CIRC

The China Insurance Regulatory Commission was established on November 18, 1998, and it is directly under the State Council. According to the authorization of the State Council to perform its administrative functions, it shall, in accordance with laws and regulations, supervise and administer the national insurance market, and maintain the legal and steady operation of the insurance industry.

Annex 4

The Institutions of the Financial Supervision in the USA

FRD

The U.S. Federal Reserve System is responsible for fulfilling the duties of the U.S. Central Bank. This system was established on December 23, 1913 according to the Federal Reserve Act. The Federal Reserve's core management organization is the Federal Reserve Board.The Federal Reserve System consists of the Federal Reserve Board in Washington, D.C., and the 12 regional Federal Reserve Banks that cover major cities across the country.

As the USA's central bank, the Fed has obtained powers from the U.S. Congress and exercised its duties of formulating monetary policies and supervising U.S. financial institutions.

FINRA

FINRA was founded in 2007, it was established by the merger of the United States Securities Dealers Association and the New York Stock Exchange Regulatory Authority.The U.S. Financial Industry Regulatory Authority is the self-regulatory organization (SRO) of the U.S. securities off-the-counter market, and the U.S. Financial Industry Supervisory Authority (FINRA) is regulated by the U.S. Securities and Exchange Commission (SEC), similar to the China Securities Industry Association. At present, it is the largest independent non-governmental securities industry self-regulatory organization in the United States. Its regulatory targets include 4,400 brokerage companies, 163,000 branches and 630,000 registered securities representatives.

The main function of the FINRA is to strengthen investor protection and market integrity through efficient supervision and technical support, and is mainly responsible for the trading behavior of the over-the-counter (OTC) market and the operation of investment banks. As a non-governmental organization, FINRA is also an important step in the development of the US financial market as an effective market for self-regulation.

FDIC

The FDIC was established in 1933 and provided deposit insurance on January 1, 1934. The FDIC maintains and increases public confidence in the country's financial system by providing insurance for banks and savings institutions' deposits, identifying and monitoring risks in deposit insurance funds, and limiting the impact on the economy and the financial system when banks and savings institutions fail.

SEC

The SEC was established under the Securities Exchange Act of 1934 and is an independent quasi-judicial body directly under the United States. It is responsible for US securities supervision and management and is the supreme body of the US securities industry. Headquartered in Washington, DC, the Securities and Exchange Commission has five members nominated by the President and passed by the National Assembly, five functional departments, and 23 offices. Approximately 4,600 employees are located in Washington DC and 11 regional offices across the country. The U.S. Securities and Exchange Commission has quasi-legislative, quasi-judicial and independent enforcement powers.

When the company is running well, the Securities and Exchange Commission (SEC) does not investigate companies that have been reversed. This is very different from the IPO.